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Japan's Savings Rate Holds Steady

Japan has a well-known reputation for thrift -- its savings rate is among the world's highest. But this apparently laudable trait has come in for criticism in recent years, being blamed for, among other ills, Japan's stubborn current account surplus. Now, however, reports of a consumer boom that has involved, among other extravagances, gold-flaked soap and food indicate Japan's excessive savings may be a diminishing problem. This argument suggests that, if only the Americans -- old hands at consumer profligacy -- would do their part by restraining themselves a little, the bilateral balance and other sources of trade friction would become much less irritating.

Unfortunately for this scenario, neither side seems to be playing its appointed role. The latest Organization for Economic Cooperation and Development data show that the gap in household savings rates actually widened last year as the miniscule U.S. rate dropped further while the Japanese rate was unchanged. Over a longer period of time, the OECD data indicate a downward trend in the United States, Japan and Europe. Increasing emphasis on savings in economic policymaking has so far failed to even slow down that trend (see Table).

Net Household Savings

(percentage of disposable household income)

Year	Japan	United States	European Community	Total OECD
1977	21.8%	9.4%	15.0%	14.0%
1978	20.8	7.3	15.9	12.5
1979	18.2	7.0	15.9	11.9
1980	17.9	7.3	16.0	12.0
1981	18.3	7.7	16.1	12.3
1982	16.5	7.0	15.7	11.8
1983	16.3	5.5	14.5	10.6
1984	16.0	6.3	14.6	10.8
1985	16.0	4.6	14.4	10.0
1986	16.6	4.5	14.3	9.8
1987	16.6	3.9	13.5	9.3

Source: Organization for Economic Cooperation and Development

The data in the table give only a partial picture of a nation's savings rate; other elements necessary to interpret the picture include awareness of several problems:

- The accuracy of the figures is open to question. Roughly speaking, the savings rate is defined as what is not spent as a percentage of what is not taken out by taxes from household income. Small errors in the underlying data can skew this percentage, a ratio of two residuals.

- Savings are counted as what is not consumed, raising the hard question of determining when the consumption occurs. A connoisseur stocking a wine cellar is saving because he is diverting some of his current income into consumption years away. As a practical matter there is often no way to segregate what is purchased for current use (appropriately counted as consumption) from that which is purchased for later use (which ideally should be included in savings). Kenichi Ohmae of McKinsey and Co. notes that resale markets are more common in the United States than Japan; for example, the ability of Americans to cash in on the residual value of even their used clothing suggests a savings dimension to many consumer expenditures in the United States. Yet economic statistics assume wine, clothing and many other items are completely consumed shortly after purchase. If, as experts generally agree, mislabeling of savings as consumption is more common in the United States than Japan, then the table overstates the differences. By one estimate this effect alone explains about one-third of the gap shown between the two countries' savings rates (see JEI Report No. 17A, May 1 1987).

- The generally reported data refer to household savings, which, while important, are not the whole story. Firms and governments also save, and international capital flows can augment or reduce the supply of savings available for use domestically. Even in Japan, households contribute less than half the supply of gross savings to the capital markets. In contrast to households,

governments and firms use more capital than they supply in both Japan and the United States, but if net government dissaving could be reduced, for example, the pressure on household savings would decrease. In Japan the foreign sector is a heavy user of funds (reflecting Japan's current account surplus and corresponding capital outflows), while in the United States the foreign sector supplements the household sector as a net supplier.

• The intended use of savings is critical to assessing the importance of low savings rates in American households, as the wine cellar example suggests. Wine contributes little of value until drunk, if then. By contrast, savings used to finance a steel mill can increase the productive capacity of the economy over a period of many years.

As the effort to reduce the Japanese savings rate implies, higher rates are not always better. A lower average savings rate corresponds to a higher rate of consumer spending and an overall stimulus to the economy, which is welcome if there is room for expansion without creating inflation. In other situations, however, a lower savings rate implies that more of the economy's current output is being used up in the current period, which, other factors being equal, leaves less for investment that adds to future productivity.

In short, the debate over savings will go on. In part, it will be over measurement, with some like Mr. Ohmae rejecting even the idea that Japan saves more than the United States. Others will debate appropriate savings levels and how to achieve the desired results.

Douglas Ostrom

OTA Issues Warning On U.S. Trade Deficit

Sometime, perhaps soon, the United States will have to pay the bill it's been running up with international creditors. When that time comes, the current account deficit will have to reduced. The main hope for substantial change in that balance is improved competitiveness in manufacturing, in which imports are concentrated and where export expansion is most promising. Reversing the recent trend of declining competitiveness is one of the challenges facing U.S. industry and, if the bill is to be paid, American policymakers.

That, in broad outline, is the message that the Office of Technology Assessment has delivered to Congress in Paying the Bill: Manufacturing and America's Trade Deficit. OTA, an analytical arm of Congress that usually specializes in technical issues, cannot make policy recommendations, but the implications are pretty clear: changes are needed in the way manufacturing is approached in this country. Japan, of course, is one of America's largest creditors and, not coincidentally, one of its chief rivals, especially in the development and deployment of advanced technology. OTA acknowledges this fact in the numerous examples it gives of superior Japanese manufacturing practices.

The key question is how U.S. manufacturers are going to get back their lost advantages. OTA sees long-term structural problems at the firm and industry level -- factors that transcend business cycles and exchange rate policies -- as important causes of the trade imbalances. While less focused on the firm

legislation aimed primarily at continued inquiry into fundamental, rather than Band-Aid, solutions to chronic bilateral trade frictions.

Participants agreed to use the "bilateral forum" approach to examine the two countries' patent systems; their goal is to complete their recommendations in time for an October meeting of American, Japanese and European officials. Tokyo's patent system has recently come under fire due largely to highly vocal complaints from some U.S. high technology firms of patent infringement by Japanese companies (see JEI Report No. 25B, July 1, 1988).

The conference participants also agreed to:

- Develop joint U.S.-Japan recommendations for the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade. The recommendations are expected to cover negotiations on GATT reform, safeguards, intellectual property rights, investment and services.

- Recognize the usefulness of multilateral, bilateral and regional trade arrangements, provided that these initiatives are consistent with and supportive of the GATT and the Uruguay Round.

- Review the current Cocom (Coordinating Committee for Multilateral Export Controls) export control system to examine ways to limit the coverage to truly significant products and technologies as well as consider how to include non-Cocom countries in a multilateral control system.

- Approve a statement urging U.S. and Japanese industries to work toward an international agreement on government regulations of biotechnology and its products.

- Endorse a statement that free and unencumbered investment is in the best interests of the United States and Japan and that sectoral or security considerations should not be allowed to distort the free entrance and operation of foreign investment.

Prime Minister Noboru Takeshita encouraged the conference to continue its work to contribute to a healthier bilateral relationship. The group also received high marks in Washington. Remaining to be seen is whether or not and to what extent the group's recommendations will be pursued in the national legislatures and/or through executive actions.

Barbara Wanner

Notes

Rice - With a fifth consecutive bumper crop of rice expected in Japan this fall and rice consumption continuing to decline, agriculture and finance ministry policymakers increasingly worry that the government could be saddled with another expensive rice disposal program. Inventories are projected at 2.3 million metric tons by the time the 1988 crop is harvested -- well above the 1.5 million metric ton figure that Tokyo considers the upper limit for adequate stocks. This projection has persuaded Prime Minister Noboru Takeshita's cabinet

to trim the price at which the government buys rice from farmers for the second year in a row. The 4.6 percent cut in the support price for 1988 crop rice, approved July 8, will drop the producer price 10.3 percent below its 1984-86 level (see Table).

Rice Support Prices, 1980-88

(per 60 kilograms)

Crop Year*	Purchase Price		Selling Price	
	Amount	Change	Amount	Change
1980	Y17,674	2.3%	Y15,891	n.a.%
1981	17,756	0.5	16,391	3.1
1982	17,951	1.1	17,033	3.9
1983	18,266	1.8	17,033	0.0
1984	18,668	2.2	17,673	3.8
1985	18,668	0.0	18,327	5.8
1986	18,668	0.0	18,598	1.5
1987	17,557	-6.0	18,133	-2.5
1988	16,743	-4.6	n.a.	n.a.

*From November of indicated year through October of following year.

While the decision to lower the purchase price lacked the drama of the government's ultimately futile 1986 attempt to tackle the primary cause of chronic overproduction (see JEI Report No. 44A, November 20, 1987), the move ironically generated more controversy than last year's vote to cut the politically sacred support price for the first time in 31 years. The Ministry of Finance had pushed for a reduction of at least 5 percent. The Ministry of Agriculture, Forestry and Fisheries had no objection to a decrease of this size, but members of the Liberal Democratic Party's farm lobby -- who account for 200 of the Diet seats held by the ruling party, according to one count -- did. What really troubled them, however, was the government's plan to change the formula for determining support prices and to restrict subsidies to farmers who cultivate more than 1.5 hectares (3.7 acres) of paddy fields.

The proposed pricing computation, worked out by the Rice Price Council, a MAFF advisory group, in an attempt to improve the efficiency of Japan's agriculture sector as well as prevent a rice inventory buildup, would base purchase prices for the time being on the costs of production of farmers with a minimum of 1.5 hectares of paddy field; eventually, 5-hectare (12.4-acre) farms would be the standard. (Only 9 percent of Japanese farm households have more than 1.5 hectares of rice, MAFF calculates, but they account for 44 percent of output.) By one estimate this formula would cut support prices by an extra 13 percent over the next three years -- an unacceptable number for many LDP politicians. In the end, the government and the party compromised. The reduction in this year's producer price was curtailed and the cabinet put a one-year hold on the plan to both revise the pricing formula and limit subsidies to the most efficient producers.

With the decision to lower support prices now behind it, the government will undoubtedly try to offset the potential political fallout on the LDP by again shaving the price at which it resells rice to wholesalers. Like last year, this reduction, which determines the price paid by consumers, is likely to be smaller than the drop in the purchase price in order to limit the government's budget exposure. But even though wholesale rice prices will remain above support prices for a second year, Tokyo's outlays for the rice program could go up since it is expected to buy more rice from farmers than it resells.

Agriculture Import Quotas - Washington and Tokyo have reached agreement on the outlines of a timetable for liberalizing eight of the 10 agricultural import quota categories that the General Agreement on Tariffs and Trade said violated international trade rules (see JEI Report No. 47B, December 11, 1987, and No. 7B, February 1, 1988). By April 1, 1990 -- a year before the quantitative restrictions on beef and orange imports are scheduled to be lifted, the Japanese government will eliminate the quotas on processed cheese, prepared beef products, sugars and syrups, fruit purees and pastes, canned pineapple and fruit pulp, tomato juice and non-citrus fruit juices, ketchup and tomato sauce, and a miscellaneous group of processed foods. Trade in some restricted milk products will also be freed by that time and tariffs on them cut to compensate the United States for Japan's delay in removing the overall quota on milk and cream products. The schedule for decontrolling the tenth quota group -- starches and insulin -- remains a sticking point, however.

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.